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October 18, 2005

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington DC 20554

Re: *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92;
In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45;
Universal Service Contribution Methodology NPRM, CC Docket No. 96-45.

Dear Ms. Dortch:

As described below, meetings took place involving the persons named, along with the undersigned, to discuss phantom traffic and universal service issues including contributions, basis of support and ETC certification. A copy of the presentation is attached. This notice is being filed in each of the dockets identified above.

On October 17th Eugene Johnson of FairPoint Communications, Bob Udell of Consolidated Communications, Jeff Glover of CenturyTel, Mike Balhoff and Brad Williams of Balhoff & Rowe met with Wireline Competition Bureau Chief Tom Navin, Steve Morris, Tamara Preiss, Jeremy Marcus, Ian Diller, and Narda Jones.

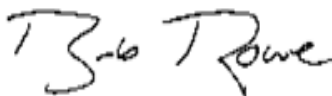
On October 18th Bob Udell, Mike Schultz of Consolidated Communications, and Mike Anderson of Iowa Telecommunications met with Scott Bergman, Advisor to Commissioner Adelstein.

On October 18th Eugene Johnson, Bob Udell, Mike Schultz, and Mike Anderson met with Jessica Rosenworcel, Advisor to Commissioner Copps.

On October 18th Eugene Johnson, Alan Wells of Iowa Telecommunications, Bob Udell, Mike Schultz, Mike Anderson, and Jeff Glover met with Commissioner Abernathy and her Advisor, Russell Hanser.

On October 18th Bob Currey of Consolidated Communications, Gene Johnson of FairPoint Communications, Alan Wells of Iowa Telecommunications, and David Zesiger of ITTA met with Chairman Martin and Michelle Carey.

Sincerely,



Robert C. Rowe

Attachments

Network Investment and Policy for Rural America

Policy Sessions
Mid-Size Carriers
October 2005

Participating Companies

- CenturyTel
- Consolidated Communications
- FairPoint Communications
- Iowa Telecommunications
- TDS
- Valor Telecommunications



Reference Points from Prior Meetings

- Focus on targeted, achievable solutions
- Uncertainty is hurting customers & network investment
- Rural carriers willing to compromise to achieve reforms
- Three “doable” projects
 - Phantom Traffic
 - Broaden base for USF contributions
 - CETC issues & effects on USF growth
- Goals of this meeting
 - Support constructive solutions and timely next steps
 - Foundation to build industry support for implementation

Issues and Proposals

<i>Issue</i>	<i>Urgency</i>	<i>Proposal</i>
Phantom traffic	<ul style="list-style-type: none"> ▪ Estimated 20% of access minutes ▪ Growing problem ▪ Access revenue is critical ▪ Impact on ICC reform ▪ Violates Act §§ 201(b), 202(a), 251(a), 252, 332(c)(1) 	<ul style="list-style-type: none"> ▪ Clear definition of labeling, including origin & jurisdiction ▪ Clarify responsibilities of all carriers in transmission path ▪ Complaint procedures ▪ Graduated penalties
USF Contributions	<ul style="list-style-type: none"> ▪ USF funding is at crisis level ▪ Uncertainty is raising cost of capital ▪ Congressional action on intrastate revs valuable, but not imminent ▪ Solution needed now! 	<ul style="list-style-type: none"> ▪ Take immediate action to resolve this pressing issue ▪ Develop a mechanism with the broadest potential base of contributors – competitively neutral
CETCs	<ul style="list-style-type: none"> ▪ Fund growth, not USF goals, is becoming the focus ▪ CETC funding drives growth ▪ Absence of discipline hurts all, including consumers 	<p><u>Mandatory</u> min. nat'l criteria</p> <ul style="list-style-type: none"> ▪ Support based on own costs ▪ Clear policy goals in terms of investment ▪ Explore mobile wireless prog.

<i>Issue</i>	<i>FCC</i>	<i>Mid-size Carriers</i>
Phantom traffic	<ul style="list-style-type: none">▪ Facilitate development and adoption of new rules▪ Near-term implementation – record in ICC docket is developed & supports immediate action	<ul style="list-style-type: none">▪ Submit specific proposal▪ Work with FCC staff to refine & implement▪ Further build industry support▪ Work with Congress
USF Contributions	<ul style="list-style-type: none">▪ Move quickly to enact a new funding mechanism▪ Work with industry to align on plan details	<ul style="list-style-type: none">▪ Support broad-based contribution mechanism▪ Collaborate with FCC staff on implementation▪ Work with Congress
CETCs	<ul style="list-style-type: none">▪ Adopt <u>mandatory</u> min. nat'l criteria (Joint Board as basis)▪ Base support on own costs▪ Statement of policy goals & need for targeted mechanisms▪ Docket on mobile wireless	<ul style="list-style-type: none">▪ Support Commission action▪ Collaborate with stakeholders on implementation▪ Work with Congress

Summary Recommendations

- Effective reforms should be
 - Consumer-focused
 - Economically viable
 - Politically feasible
- RLECs provide high-quality basic service, access to advanced services, and COLR
 - Reform facilitates investment in and deployment of advanced services to rural America
 - Reform will alleviate uncertainty surrounding network investment key to rural consumers

Based on the increased predictability, sustainability, and sufficiency of rural support that would result from the actions outlined, the companies will be better able to serve rural consumers and increase investment in “universal” broadband network deployment, as endorsed by the President and the Chairman.

We deeply appreciate and are encouraged by the Chairman and the Commission’s action and leadership at this critical time



Universal Service Trends

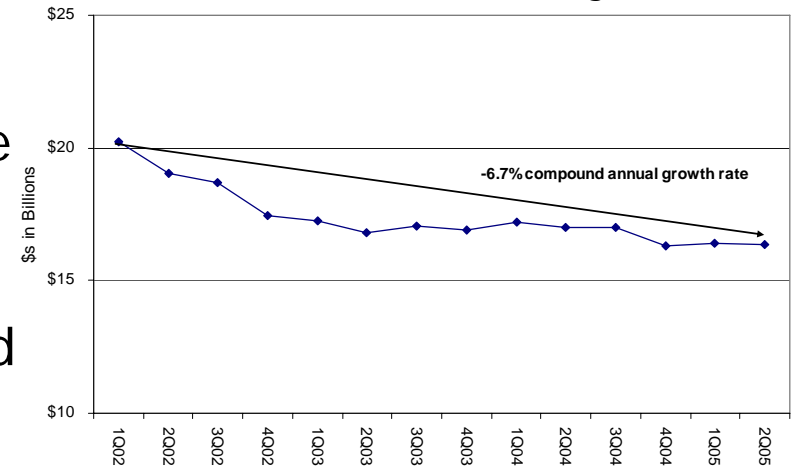
Presentation to Policymakers
October 17-18, 2005

USF Contribution Methodology

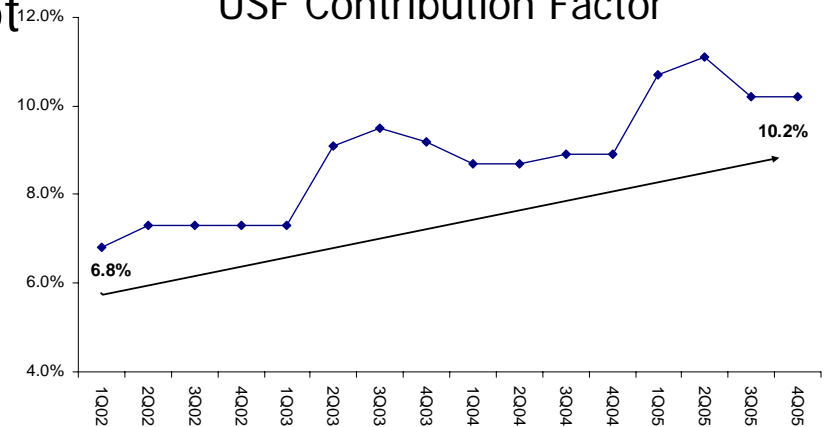
■ Problem

- Need for a funding mechanism that provides larger, more stable USF funding base, w/ equitable contribution requirements
- When DSL is eventually removed from base, assessment factor could raise from 13%, from 10.2% to 11.5%, making prompt action important
- Uncertainty around future funding sources are clouding investment decisions

USF Interstate Funding Base



USF Contribution Factor



Broaden & stabilize base, ensuring greater predictability for all participants

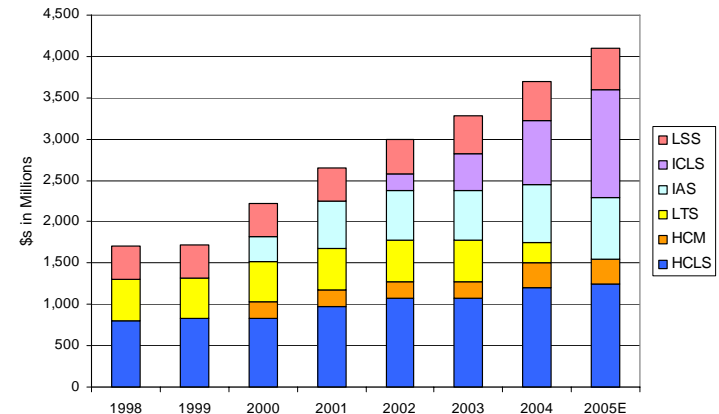
Attributes of Contribution Reform

- Broadest possible funding base to achieve relatively low assessment rate on each consumer
 - Minimize incentives for bypass or noncompliance
 - Unequal obligation among similar services using different technologies could affect consumer choice
- Sufficiency, stability, and predictability over time
 - Minimize carrier and customer confusion
 - Better environment for network investment decisions
- Relatively technology and market resilient
- Providers that benefit from use of the network should be obligated to contribute to the support of the network

HCF increasing due to access replacement and CETCs

	Funding in \$millions			% of USF		Growth in funding			Incremental ILEC funding (2)
	CETC	ILEC	Total	CETC	ILEC	CETC	ILEC	ILEC w/o (2)	
1998	.	1,696.6	1,696.6	0%	100%	-	-	-	
1999	.5	1,723.1	1,723.7	0%	100%	-	1.6%	1.6%	
2000	1.5	2,515.3	2,516.8	0%	100%	179.1%	46.0%	17.0%	\$500M from reg. chngs., including IAS
2001	20.2	2,583.2	2,603.4	1%	99%	1251.1%	2.7%	2.7%	
2002	47.5	2,934.5	2,982.	2%	98%	135.3%	13.6%	5.5%	\$210M from reg. chngs., including ICLS
2003	131.5	3,141.8	3,273.2	4%	96%	176.8%	7.1%	2.6%	\$130M from reg. chngs., including ICLS/IAS
2004	333.1	3,154.5	3,487.7	10%	90%	153.4%	0.4%	0.4%	
2005E	719.4	3,174.2	3,893.5	18%	82%	115.9%	0.6%	0.6%	

Source: USAC; projections by Balhoff & Rowe and are based on USAC's 2Q05 estimates for full year



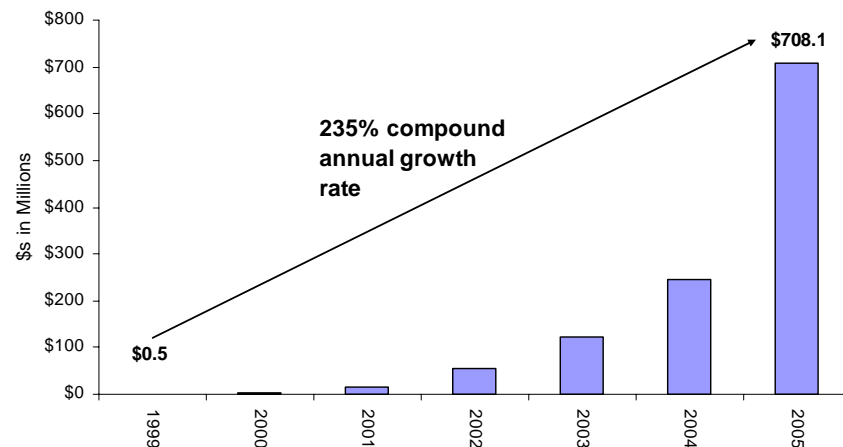
HCLS = loop; HCM = Model (large co); LTS = long term;
ICLS = interstate common line; LSS = local switching;
SNS = safety net; SVS = safety valve.

Source: USAC

- Step-function changes in ILEC funding, mainly due to access replacement, not “new money.”
- Under identical support rule, CETCs receive “new money” from access replacement.
 - 97 percent of CETC carriers were wireless. Did not receive access payments, but did receive access replacement.
 - Also benefited from reduced access levels.
- Identical support also provides CETCs “safety valve” support, intended to help rehabilitate acquired ILEC exchanges.

Key Implications of Current Approach to Designating & Funding CETCs

- *Current* fund growth associated with the rapid increase in wireless CETC funding
 - So far, the largest CMRS carriers (e.g. Verizon, Cingular) have largely refrained from seeking CETC status
- Number of Competitive (mainly mobile wireless) ETCs increasing, with presence in more study areas
 - Under “identical support rule” they also receive access-replacement support, although they didn’t receive access
- Confusion over universal service purposes – promote rural service, promote competition, or both?



Source: USAC 4Q05, filed 8-2-05

	3Q02	3Q05	CAGR
Rural CETCs	26	161	83.6%
Rural ILEC Study Areas w/ CETCS	221	747	50.1%
% of Total Rural High Cost Support	3.0%	17.8%	81.0%

Source: USAC 3Q05

Greater CETC Discipline is Required

■ Problem

- CETCs are driving fund growth
- Unfocused policy goals in CETC regime
- Absence of discipline and accountability

■ Solutions

- Clearly stated policy goals & targeted mechanisms
- Support FCC adopting JB's mandatory minimum national criteria for CETCs
 - CETC COLR requirements to receive USF
 - USF for ETCs based on their own costs
 - Address deficiencies in the guidelines, including not requiring compliance at the time the funds are received
 - Pursue appropriate tests/analyses, for national application, providing a "bright-line" for designating ETCs

Quarterly HCF Support Comparison

(in 000s)		Growth	
Non-Rural	ILEC	CETC	
ILEC-Price	\$ 159,235		-3.5%
ILEC-ROR	\$ 19,455		-3.0%
CETC		\$ 53,902	149.2%
CETC-Pending		\$ 16,132	236.5%
Total	\$ 178,690	\$ 70,033	-3.5% 165.0%
Rural			
ILEC-Price	\$ 70,814		-15.1%
ILEC-ROR	\$ 554,826		1.0%
CETC		\$ 111,929	63.0%
CETC-Pending		\$ 22,076	-40.2%
Total	\$ 625,640	\$ 134,005	-1.1% 26.9%
Non-Rural + Rural	\$ 804,330	\$ 204,039	-1.6% 54.5%

High Cost Support 4Q2004

Non-Rural	ILEC	CETC
ILEC-Price	\$ 165,038	
ILEC-ROR	\$ 20,067	
CETC		\$ 21,629
CETC-Pending		\$ 4,794
Total	\$ 185,105	\$ 26,423
Rural		
ILEC-Price	\$ 83,441	
ILEC-ROR	\$ 549,133	
CETC		\$ 68,671
CETC-Pending		\$ 36,935
Total	\$ 632,573	\$ 105,607
Non-Rural + Rural	\$ 817,678	\$ 132,030

Source: USAC 4Q05